

VZCZCXRO5228
RR RUEHMR RUEHRN
DE RUEHKI #0125/01 0321307
ZNY CCCCC ZZH
R 011307Z FEB 07
FM AMEMBASSY KINSHASA
TO RUEHC/SECSTATE WASHDC 5524
INFO RUEHXR/RWANDA COLLECTIVE
RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY
RUEATRS/DEPT OF TREASURY WASHDC
RUEAIIA/CIA WASHDC
RUFOADA/JAC MOLESWORTH RAF MOLESWORTH UK
RHMFISS/HQ USEUCOM VAIHINGEN GE

C O N F I D E N T I A L SECTION 01 OF 02 KINSHASA 000125

SIPDIS

SIPDIS

E.O. 12958: DECL: 01/31/2017
TAGS: [EMIN](#) [ECON](#) [EINV](#) [ETRD](#) [CG](#)
SUBJECT: GDRC DIAMOND SECTOR UPDATE - IT'S NOT GOOD NEWS

REF: A. 05 KINSHASA 731

[1](#)B. 06 KINSHASA 440

Classified By: EconOff W. Brafman for reasons 1.4 b/d.

[1](#)1. (SBU) Summary. The DRC's 2006 diamond export revenues will likely be well below 2005 levels, largely due to a drop in production by the diamond mining parastatal, MIBA. Not only have production, export quantities, and export values decreased compared with 2005 figures, but hoped-for export revenues from the DRC's only diamond polishing factory have also failed to materialize. The decrease in official production may provoke a dispute among the GDRC, MIBA and a private company over a diamond marketing contract set to expire in July 2007. End summary.

Production and export - not a rosy picture

[1](#)2. (U) The DRC's production through the end of November 2006 dropped by 12.35 percent against 2005 totals. The CEEC (the DRC's diamond/gold evaluating authority) reports total national production of nearly 26 million carats through November 2006, against 29.6 million for the same period in [1](#)2005. Production of industrial diamonds decreased 13.9 percent over that period, while gem-quality production dropped by less than one percent. (Note: The decrease is largely attributable to MIBA, whose production has fallen off by almost half in the last year, and which did not even report any November 2006 production. End note.) According to CEEC valuations, per carat value of exported diamonds decreased overall by 23 percent, led by a 28.5 percent drop in evaluated worth of industrial diamonds and a 19.9 percent decrease in the value of gem-quality diamonds. (Note: Rough-diamond prices did decrease globally in 2006. End note.)

[1](#)3. (U) The quantity and value of exported diamonds also decreased through November 2006, compared to the same period in 2005. The exported quantities of both gem quality and industrial diamonds dropped by the same twenty percent. However, the reduction in the value of these exported diamond differed significantly: gem quality diamond values were down by twenty percent, while industrial diamond values were down by 43 percent.

Problems with Emaxon too

[1](#)5. (C) To add to problems in the DRC diamond sector, a dispute may be brewing between the GDRC and Israeli businessman Dan Gertler. The diamond marketing contract between MIBA and Emaxon Finance International (Emaxon), a member of the Dan Gertler International group of companies,

is scheduled to expire in July 2007, but Emaxon claims the contract will extend for several more months. (Note: Per Reftel A, the agreement was part of a controversial USD 15 million loan package to MIBA. End note.) Under the agreement, Emaxon has the right to purchase 88 percent of MIBA's production at ten percent below market rate, and MIBA must produce a minimum, monthly quantity of approximately 455,000 carats.

¶6. (C) MIBA, however, has been producing well below its contractual quota for the last few months. As a result, according to Emaxon, the agreement will extend until MIBA meets the set production quantity. A Ministry of Mines counselor told EconOff that while it is true that MIBA has been producing well below the contract's floor, the people associated with Emaxon are "thieves" and will find any pretext to prolong the contract. He also told EconOff Emaxon has unfairly been paying MIBA far below market value for the diamonds, even considering the contractual discount.

¶7. (C) Meanwhile, the production of another DGI entity, Emaxon Polishing, is also low. Since its cutting and polishing factory opened in Kananga, Western Kasai in 2005, it has consistently reported processing only about 250 carats per month. According to the CEEC, Emaxon produced 265 gem-quality polished diamonds with an estimated value of USD 60,000 in November 2006, the last month for which official statistics are available. An Emaxon official told EconOff the DGI Group is not ready to invest significant resources in this project, but is instead focusing on its copper/cobalt production. (Note: In 2005, Emaxon officials told EconOff that the factory was not producing at capacity because it did not have a license to purchase diamonds domestically (reftel B). End note.)

KINSHASA 00000125 002 OF 002

Comment

¶8. (C) Until the proposed large-scale industrial projects begin production, which is not expected to occur for several years, the DRC's official diamond revenues are likely to remain flat or even continue to decrease. What drives this situation is both MIBA's decreasing production capacity and the GDRC's inability or unwillingness to stem the flow of diamonds outside of official sources. End comment.
MEECE